

EX PARTE OR LATE FILED

**BELLSOUTH**

**W. W. (Whit) Jordan**  
Vice President-Federal Regulatory

Suite 900  
1133-21st Street, N.W.  
Washington, D.C. 20036-3351  
202 463-4114  
Fax: 202 463-4198  
Internet: jordan.whit@bsc.bls.com

July 29, 1998

EX PARTE OR LATE FILED

**EX PARTE**

Ms. Magalie Roman Salas  
Secretary  
Federal Communications Commission  
1919 M Street, NW, Room 222  
Washington, D.C. 20554

RECEIVED

JUL 29 1998

FEDERAL COMMUNICATIONS COMMISSION  
WASHINGTON, D.C. 20554

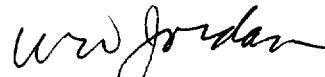
RE: CC Docket No. 98-39

Dear Ms. Salas:

In connection with the above referenced proceeding, Comptel has made several misleading assertions regarding what it believes to be advantages which BellSouth BSE, Inc., as a CLEC, has relative to other CLECs. The attached material responds to Comptel's assertions and shows that BellSouth has no competitive advantage over other ILECs' service and that the inclusion of the BellSouth name in the BellSouth CLEC's name is a common practice used by other companies including AT&T, MCI and Sprint.

Please call me if you have any questions.

Yours truly,



William (Whit) Jordan  
Vice-President - Federal Regulatory

**Attachment**

cc:	Jim Casserly	Larry Strickling
	Paul Gallant	Carol Matthey
	Kyle Dixon	Linda Kinney
	Kevin Martin	Liz Nightingale
	Tom Power	

0+1

## **COMPTEL PETITION FOR DECLARATORY RULING DOCKET NO. 98-39**

### **CompTel Assertion: BellSouth BSE, Inc., As A CLEC, Has A Competitive Advantage Over Other CLEC's In Reselling An Affiliated ILEC's Service**

CompTel arguments In *Ex Parte* presentations:

- Bellsouth BSE has greater margin to deal with than other resellers of ILEC's services
  - BSE can ignore the actual price it pays to the ILEC
  - BellSouth Corporation continues to get access revenues
- BellSouth BSE can charge lower price than other CLECs due to greater margin
- Example provided by CompTel (business customer) with retail local price of \$57.66 and resale price of \$49.34.
  - BellSouth BSE margin \$42.54
  - Any other CLEC margin \$8.32

Flaws with CompTel's Analysis:

- Whether the ILEC (BST) retains a customer with the retail revenues of \$57.66 or on a wholesale basis at \$49.34, it is financially neutral, i.e. the difference of \$8.32 equates to the ILEC's avoided costs.
- BellSouth BSE must recover the \$49.34 (the resale price) plus any costs just like any other CLEC--if not, it will lose money and so will BellSouth Corporation.
- The \$13.02 in access revenues is unchanged whether the ILEC retains the customer, BSE (the CLEC) obtains the customer or any other CLEC obtains the customer--the access revenues do not provide BellSouth BSE any advantage.
- If BellSouth BSE sold service below its costs (i.e. \$49.34, plus its own costs), it would be obligated to resell the services to other CLECs. For example, if BellSouth BSE sold the service at \$48.00, other CLECs could buy from BSE at a lower rate than the ILEC's wholesale price of \$49.34. BSE and BellSouth, corporately, would lose money on every transaction.

- Other CLECs would be able to determine BSE's price and would take regulatory or judicial action if they perceived any anti-competitive activity.

Conclusions:

- BellSouth BSE's resale margin is the same as other CLECs -- no advantages.
- If BSE sells below its costs, it loses money like any other company doing so.
- The requirement that CLECs must allow resale (even without a discount) would cause even greater losses to BSE and BellSouth Corporation.
- The CompTel example attempts to draw conclusions that are financially untenable as well as in violation of legal/regulatory requirements.

*(EXAMPLE FROM COMPTTEL EX PARTE CC-DOCKET 98-39)*  
**Comparing Economics of Service Resale**

**Typical Business (non-PBX) Customer<sup>1</sup>**

	<u>BSE</u>	<u>BST</u>	<u>BellSouth</u>
Resold Revenues	\$57.66		\$57.66
Cost of Resold Services	(\$49.34)	\$49.34	\$ 0.00
Access Revenue		\$13.02	\$13.02
Network Cost		(\$28.14)	(\$28.14)
<b>Gross Margin</b>			<b>\$42.54</b>
			<u>Reseller-Entrant</u>
Resold Revenues			\$57.66
Cost of Resold Services			(\$49.34)
<b>Gross Margin</b>			<b>\$ 8.32</b>

---

**Typical Residential Customer<sup>1</sup>**

	<u>BSE</u>	<u>BST</u>	<u>BellSouth</u>
Resold Revenues	\$24.69		\$24.69
Cost of Resold Services	(\$20.06)	\$20.06	\$ 0.00
Access Revenue		\$10.61	\$10.61
Network Cost		(\$26.33)	(\$26.33)
<b>Gross Margin</b>			<b>\$ 8.97</b>
			<u>Reseller-Entrant</u>
Resold Revenues			\$24.69
Cost of Resold Services			(\$20.06)
<b>Gross Margin</b>			<b>\$ 4.63</b>

---

<sup>1</sup>Typical residential and business customer revenue profile from BellSouth Exhibit AJV-1, Docket 97-1140-TP (Testimony of Alphonso Varner).

## **CompTel Issue: The Inclusion of BellSouth in the BellSouth CLEC'S Name**

CompTel concerns:

- Customer confusion over company identity.
- BellSouth CLEC will gain an advantage through generic BellSouth advertising.

BellSouth's position:

- Use of BellSouth's name by CLEC is a typical example of brand extension, e.g. Ford Taurus and Ford Explorer; Diet Coca-Cola and Classic Coca-Cola; or Scott's Garden Products and Scott's Lawn Mowers.
- Very common practice, especially in the consumer market.
  - Help customer identify with the company and the product being offered.
  - Typically well received by consumer, yet new product may fail if not up to the standards of the company brand, e.g. Harley Davidson Wine Coolers.
- Common within telecommunications industry, e.g. ...
  - AT&T Long Distance and Local
  - MCI Long Distance and MCI Metro
  - SPRINT Long Distance and Local (doing away with the SPRINT and United Telephone distinction)
  - Some use of intentional unbranded or off-branded services
    - 1-800-Collect
    - Dial 10-321
- Primary competitors have strong brand recognition (i.e., no advantage to BellSouth)
  - AT&T, MCI, SPRINT, and GTE are all capable of competing with BellSouth.
  - AT&T typically strongest brand recognition; MCI also strong.
  - Considering combined local and long distance package, large long distance carriers hold significant advantage over BellSouth.
    - More extensive advertising
    - National, rather than regional scope
    - Significant in roads already into RBOC businesses, initially with intraLATA toll

- No Legal or Regulatory limitations on use of name
  - Section 272 of the Act describes required separateness for ILEC provision of long distance by an affiliate (that could also provide local service)--no mention of any brand restrictions.
  - By contrast, Section 274, Electronic Publishing, explicitly addresses provisions concerning the use of the Bell Operating Company's name.